COMMONWEALTH OF KENTUCKY

BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN INVESTIGATION OF THE UNION LIGHT, HEAT AND POWER COMPANY'S SERVICE AGREEMENT WITH THE CONTINENTAL CAN COMPANY, INC.	))))	CASE NO. 10134

O R D E R

On December 7, 1987, Union Light, Heat and Power Company ("ULH&P") filed a special contract setting forth terms and conditions of electric service to the Continental Can Company, Inc. ("Continental"). The contract provides that ULH&P will bill Continental for all electric service under the terms of the currently effective Rate DT, Time-of-Day for Service at Distribution Voltage, modified to reflect a demand discount that declines over the 5-year life of the service contract. The reduction in the demand charge is 50 percent the first year, 40 percent the second year, 30 percent the third year, 20 percent the fourth year and a 10 percent reduction in the fifth, and last, year of the contract.

On January 10, 1988, the Commission ordered that an investigation be initiated to review the reasonableness of the ULH&P/Continental electric service agreement.

On March 10, 1988, ULH&P responded to a Commission Order dated February 26, 1988, in which they were requested to provide, among other things, projected sales volumes, revenues, and expenses for Continental for the 5 years of the demand discount; and projection of the annual revenue shortfall resulting from the difference between the normal demand charge of Rate DT and the discounted demand charge offered Continental.

In response to the Order, ULH&P stated that the projected sales volumes and revenues for the 5-year discount period indicate that total charges under the standard Rate DT would amount to $4,249,002. Under the proposed incentive rate, total charges for the 5-year period would be $3,889,002, or a total projected revenue difference of $360,000.[1]

They further stated that the projected costs to serve Continental are divided into two components: fixed and variable. The fixed cost is calculated to be $15,980 for each year of the discount period.[2] Over the 5-year period, accounting for accumulated depreciation, the total amount of fixed costs is $75,333. The 5-year total variable cost is $3,415,000.[3] Therefore, the total projected cost to serve Continental for the 5-year discount period is $3,490,333. The difference between projected revenue, under the proposed incentive rate, and projected cost is $398,669. For each year of the discount period, ULH&P will collect revenues from Continental sufficient to recover

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1 Responses of the Union Light, Heat and Power Company to the Commission's Order dated February 26, 1988, Attachment I.

2 Ibid., Attachment II.

3 Ibid., Attachment III.

its cost to serve Continental, and to contribute to total company fixed costs.

In this same Response, ULH&P offered an insight into the purpose and possible benefit of the proposed special contract with Continental. They state,

> ULH&P would expect to continue to offer a special contract to customers whose operations reflect a minimum load on a case by case basis if such a contract is to attract either new load or to retain existing load with the result being either new jobs or retention of existing jobs which have a positive impact on the economy of the Commonwealth.[4]

There has been a substantial increase in the number of economic development/incentive rates filed with the Commission by both electric and gas utilities during the past year. The purpose of these tariffs, according to the utilities, is to increase the amount of energy sold and/or to expand the level of capital investment and employment in the sponsoring utility's service area. Though the rate designs may vary drastically by utility, they typically provide demand discounts for new and expanding industries within the utility's service area for some specified time period (normally 5 years).

Because of the number of tariffs and their potential impact on the utility and customers, the Commission is of the opinion that a consistent policy should be developed on tariff filing and reporting requirements. In the future, the Commission will issue

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4 Ibid., pp. 3-4.

specific guidelines to be followed by all electric and gas utilities that intend to file economic development/incentive rates.

The effective date of this economic incentive agreement is a point of concern to the Commission. The agreement was entered into on November 11, 1987 and its effectiveness is specifically conditioned upon Commission approval. This condition is, however, merely a recognition that the Commission's regulation, 807 KAR 5:011, Section 13, mandates that these special contract agreements be filed as rate tariffs. Consequently, such agreements cannot become effective until the Commission has been given the 30 days notice required by KRS 278.180. Although the agreement was filed on December 7, 1987, ULH&P had by that date already commenced service to Continental under the agreement. The Commission admonishes ULH&P for its actions and ULH&P should take steps to ensure that no contract or agreement is implemented prior to the expiration of the notice period to the Commission.

Based on a review of the service contract and relevant materials, the Commission is of the opinion and hereby finds that ULH&P's service agreement with Continental is approved.

IT IS THEREFORE ORDERED that ULH&P's service contract with Continental be and hereby is approved.

Done at Frankfort, Kentucky, this 20th day of June, 1988.

PUBLIC SERVICE COMMISSION

Chairman

Vice Chairman

Commissioner

ATTEST:

Executive Director